

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

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R 250933Z JUL 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1917

AMEMBASSY BONN

AMCONSUL HONG KONG

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PASS TREASURY, FEDERAL RESERVE AND CEA

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: GOJ ALREADY CONSIDERING FOURTH SET OF ANTIRECESSION
MEASURES

REF: TOKYO 8033

1. SUMMARY: LITTLE MORE THAN ONE MOMENT FOLLOWING ANNOUNCE-
MENT OF THIRD SET OF MEASURES (REPORTED REFTEL) GOJ ECONOMIC
LEADERS RECOGNIZE THE NEED FOR A FURTHER STIMULUS, OTHERWISE
THE ECONOMY IS UNLIKELY TO BEGIN ITS RECOVERY UNTIL YEAR-END.
ACCORDING TO PRESS REPORS, DEPUTY PM FUKUDA AND MINFIN
OHIRA NOW SUPPORT EARLY IMPLEMENTATION OF A STRONG PHASE 4
ANTIRECESSION PROGRAM. ON THE OTHER HAND, BOJ GOV MORINAGA
CONTINUES TO URGE CAUTION BECAUSE OF THE INFLATIONARY THREAT.
DESPITE CONTINUING REVENUE SHORTFALLS BELOW PROJECTIONS AS
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RESULT O THE BUILT-IN FISCAL STABILIZERS, IT NOW

APPEAS LIKELY THAT A LARGE SUPPLEMENTARY BUDGET WILL BE INTRODUCED IN THE RECONVENED DIET SESSION EXPECTED IN SEPTEMBER. THAT SUPPLEMENTARY BUDGET WILL NO DOUBT CREATE A LARGE DEFICIT IN THIS YEAR'S BUDGET. END SUMMARY.

2. THE ECONOMIC RECOVERY REMAINS VERY WEAK AND THE THREE SETS OF ANTIRECESSION MEASURES APPEAR TO HAVE HAD LITTLE NET IMPACT ACCORDING RECENT STATEMENTS BY MINISTERS. DEPUTY PM AND EPA DIR GEN FUKUDA ADMITTED TO THE JAPANESE PRESS ON JULY 22 THAT ECONOMIC RECOVERY WILL BE DELAYED UNTIL YEAR-END. FINMIN OHIRA EXPRESSED THE SAME OPINOION. HE SAID GOJ NOW RECOGNIZES THAT PRESENT BUSINESS SENTIMENT IS MUCH MORE GLOOMY ABOUT THE FUTURE THANIT WAS THIS SPRING. CONTRARY TO GOJ'S PREVIOUS EXPECTATIONS THAT THE RECESSION WOULD BOTTOM IN THE SPRING AND THAT THEREAFTER THE ECONOMY WOULD TURN UP GRADUALLY, THE CURENT PROOSPECT IS THAT THE ECONOMY WILL STAGNATE AND REMAIN AT THE BOTTOM FOR SOME TIME. OHIRA ADMITTED THAT THE THREE ANTIRECESSION MEASURES HAD NOT BEEN SUFFICIENTLY STIMULATIVE, IN PART, BECAUSE GOJ HAD BEEN CONCERNED ABOUT THE RISING REVENUE SHORTFALL AND WAS UNWILLING TO SEE THE DEFICIT INCREASED BEYOND THAT IN THE BUDGET. AS INFLATION APPEARS TO BE RECEDING, HE AND FUKUDA ARE NOW WILLING TO INTRODUCE FURTHER MEASURES TO BOOST THE ECONOMY.

3. PM MIKI AND LDP SEC GEN NAKASONE MET WITH CHAIRMAN DOKO OF KEIDANREN (FEDERATION OF ECOLNOMIC ORGANIZATIONS) AND OTHER TOP BUSINESS LEADERS ON JULY 16. DOKO STRONG URGED EARLY IMPLEMENTATION OF A THIRD CUT IN THE DIS-COUNT RATE AND ADDITIONAL PUBLIC WORKS SPENDING. PM MIKI AGREED THAT BUSINESS HAS BEEN SUFFERING FROM THE SERIOUS DEPRESSION AND THAT GOJ SHOULD PAY AS MUCH ATTENTION TO UNEMPLOYMENT AS IT DOES TO INFLATION. PM MIKI REPORTEDLY PROMISED DOKO THAT GOJ WOULD TAKE ADDITIONAL STIMULATIVE MEASURES.

4. LDP SEC GEN NAKASONE URGED FURTHER RELAXATION OF MONETARY POLICY ON JULY 22. NAKASONE SAID THE DISCOUNT RATE AND RESERVE REQUIREMENTS SHOULD BE REDUCED AND BOJ UNCLASSIFIED

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RESTRICTIONS ON BANK LENDING (I.E. WINDOW GUIDANCE) SHOULD BE FURTHER EASED. ON JULY 23 ITI MINISTER KOMOTO REPORTED THAT GOJ WAS CURRENTLY STUDYING POSSIBILITIES FOR GREATER MONETARY EASE.

5. ON JULY 14 REGIONAL BOJ BRANCH MANAGERS AT THEIR REGULAR MONTHLY MEETING REPORTED THAT PREVIUS STIMULA-TION THROUGH INCREASED PUBLIC WORK SPENDING HAD BEEN

FRUITLESS. BUSINESSMEN WERE VERY DISCOURAGED AND BUSINESS PSYCHOLOGY WAS VERY WEAK: WITH NO SIGNS OF REAL RECOVERY, DEPARTMENT STORE SALES AND EXPORTS REMAINED SLUGGISH; THERE WAS SOME FEAR WITHIN BOJ (ACCORDING TO PRESS REPORTS) THAT RECESSION COULD DEEPEN IN JULY AND AUGUST - A TIME OF SUMMER HOLIDAYS AND SEASONALLY SLOWER ECONOMIC ACTIVITY. ACCORDING TO NIHON KEIZAI NEWSPAPER, BOJ IS ALREADY CONSIDERING POSSIBILITY OF A THIRD DISCOUNT RATE CUT AS EARLY AS MID-AUGUST. ON OTHER HAND, BOJ GOV MORINAGA AT PRESS CONFERENCE ON JULY 23 DENIED SUCH A POSSIBILITY, ALTHOUGH HE ADMITTED THE RECOVERY WAS SLOWER THAN HAD BEEN ANTICIPATED AND THAT THE THIRD SET OF ANTIRECESSION MEASURES APPARENTLY HAD LITTLE EFFECT.

6. LDP SEC GEN NAKASONE PROMISED KEIDRAREN BUSINESS LEADERS AT JULY 17 MEETING THAT THE DIET WOULD BE RECONVENED INTO SPECIAL SESSION IN EARLY SEPTEMBER AND THAT IT WOULD CONCENTRATE ON PASSING ANTIRECESSION PROGRAMS. HE REPORTEDLY SAID GOJ WOULD SUBMIT A LARGE SUPPLEMENTARY BUDGET INCLUDING CERTAIN LARGE CONSTRUCTION PROJECTS WHICH HAD BEEN SHELVED DURING THE ANTI-INFLATIONARY BUDGET PERIOD (E.G. BRIDGES TO ISLAND OF SHIKOKU AND BULLET TRAIN TO NORTHERN JAPAN). FOLLOWING RELEASE OF A VARIETY OF ECONOMIC INDICATORS IN LATE JULY AND EARLY AUGUST, GOJ OFFICIALS REPORTEDLY INTENDED TO DECIDE WHAT SPECIFIC ANTIRECESSION MEASURES ARE TO BE INCLUDED IN PHASE 4.

7. COMMENTARY: EMBASSY PREVIOUSLY REPORTED ON FEEBLENESS OF RECOVERY IN JAPAN (TOKYO 9446) AND THAT PHASE 3 (REFTEL) WAS LIKE A MARSHMALLOW. PHASE 4 ALSO LIKELY TO BE PACKAGE OF MANY INDIVIDUAL MEASURES, PROBABLY UNCLASSIFIED

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INCLUDING ADDITIONAL FUNDS FOR HOUSING, LARGE AS WELL AS SMALL SCALE PUBLIC WORKS PROJECTS, CREDITS TO ASSIST PRIVATE ENTERPRISE AND SMALLER BUSINESSES AND FURTHER MONETARY EASE. FINATT BELIEVES GOJ NOW REALIZES THAT SIZABLE GOVERNMENT FUNDS MUST BE INJECTED INTO ECONOMIC SPENDING STREAM IN ORDER TO REVIVE THE ECONOMY. HOWEVER, POLICY WILL REMAIN CAUTIOUS SO AS NOT TO DEEMPHASIZE THE PRICE STABILITY OBJECTIVE AND ALSO AVOID POSSIBILITY OF GO-STOP POLICY, VIZ SUDDEN REVIVAL OF CONSUMER CONFIDENCE CREATING UNDESIRABLY STRONG DEMAND CONDITIONS. SHOESMITH

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